

September 27, 2000

Shannon Hamm, USDA  
1400 Independence Ave. SW, Stop 3601  
Washington, D C 20250-3601

Re: Captive Supply Forum

Dear Mr. Hamm;

The concept "captive supply" was created by Paul Engler of Cactus Feeders ten to fifteen years ago.. He did it because Cactus didn't have the qualified staff to market the cattle they finished each week. He made a deal with IBP, his old employer, to take the cattle without arriving at a price until there was a trade in the cash market. His cattle were then based off the cash trade, plus a little. In the early days of the Cactus deal, the few hundred thousand cattle Cactus removed from the competitive market each year had only a small effect on the cash price negotiated by the balance of the producers and packers. But as time went along, more and more producer/packer deals were entered into which had an ever greater impact on the price of the balance of the cattle left to trade in the open market. Each of the deals had some sweetener for the producer to get them to leave the competitive market at the expense of the ever smaller numbers left. And so on, and so on. Interestingly enough, Paul Engler agrees captive supplies are bad for cattle producers, but he told us he feels intimidated about quitting his deal and returning to the competitive marketplace for fear none of the packers would bid on his cattle.

Today we have a situation where far fewer than 50% of the fed cattle traded are truly priced with any kind of negotiation. It is simply, "take it or leave it" market price. The government and packers admit to approximately 50% captive, but I know for a fact many feedyards deliver cattle to be priced at the "top of the week" and report them as negotiated sales. If nothing is done soon, 100% will be captive within a very short time. My guess is within three years. I shudder to think the cattle industry could be as dead as the chicken and hog business is today.

The WORC proposal for rule changes would be a giant step in the right direction even though it would not outlaw captive supplies of cattle. At least captive cattle prices would be negotiated in the open market and all buyers and sellers would have an equal chance to compete. I realize the major packers do NOT want other buyers of fed cattle or cattle producers to have the same chance to be profitable as they have. After all, this is America and the rich and powerful get richer and more powerful unless someone like P&S stops them. The law is already in place to stop the abuse of cattle producers. Unfortunately, P&S has chosen not to enforce it. Maybe the WORC rules would help.

We at BeefEx have been very closely involved with the "captive supply" issue for several years. As the people who developed the electronic fed cattle marketing system, we have worked to bring competitive bidding to the fed cattle market. Our efforts have been received with open arms by cattle producers who want an open market and shunned by those who want a closed market. Of course the major packers have boycotted the system, refusing to bid on any cattle offered on the system. They told us they would NOT participate, period. We filed a complaint with the Denver P&S office and were told, there was nothing they could do. We were told, off the record, P&S had two first year lawyers and the packers had a thousand New York lawyers so it was no use going any further. P&S obviously takes the position that their job is to ignore packer violations of the Packers and Stockyards Act, or worse yet, to support the packers against the producers.

I realize Sec. Glickman is on his way out and will almost certainly NOT do anything about this problem. I remember Rep. Dan Glickman as a friend of agriculture when I lived in his district in Kansas years ago. I am very disappointed that he has sold out to the rich and powerful corporations in agriculture over his years as Sec. of Ag. I would like to be proven wrong on this matter and see him do the right thing and at least implement the WORC Rules before he leaves.

If anyone cares to find out more about the details of our experience trying to save competitive fed cattle markets, please feel free to call me at 254/965-6444.

Very sincerely,



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